

AR12

# Neomar

NEOMAR RESOURCES LIMITED  
ANNUAL REPORT 1978







## **Board of Directors**

Stanley J. Chad, Calgary, Alberta  
*Petroleum Engineer, President, Signalta Resources Limited*

H. Dahl — Jensen, Unionville, Ontario  
*Realtor, President, Mihorean & Dahl-Jensen*

David Doig, Toronto, Ontario  
*Chartered Accountant, Vice President, Corporate Affairs and Secretary, Camflo Mines Limited*

Robert E. Fasken, Mississauga, Ontario  
*Mining Executive, Chairman, Camflo Mines Limited*

K. G. R. Gwynne-Timothy, Q.C., Toronto, Ontario  
*Barrister and Solicitor, Senior Partner, Holden, Murdoch & Finlay*

Gordon B. Henning, Toronto, Ontario  
*Consultant*

Robert M. Smith, Oakville, Ontario  
*Mining Engineer, President, Camflo Mines Limited*

## **Officers and Staff**

Robert M. Smith — *President*

Robert E. Fasken — *Vice President*

Indraman Halim-Diharja — *Exploration Manager*

Howard M. Sorenson — *Production Manager*

David Doig — *Secretary*

Robert D. Sherman — *Treasurer*

R. Geoffrey Newbury — *Assistant Secretary*

## **Executive and Head Office**

Suite 3001, South Tower, P.O. Box 45  
Royal Bank Plaza  
Toronto, Canada M5J 2J1

## **Transfer Agent and Registrar**

Canada Permanent Trust Company  
Toronto, Ontario

## **Auditors**

Allen, Miles, Fox & Johnson  
Chartered Accountants, Toronto, Canada

## **Solicitors**

Holden, Murdoch & Finlay  
Toronto, Ontario

## **Bankers**

Canadian Imperial Bank of Commerce  
Toronto, Canada

## **Share Listing**

The Toronto Stock Exchange  
Symbol NMR

## **Annual and General Meeting of Shareholders**

May 28, 1979, 9:30 a.m.  
Carmichael Jackson Room, Hotel Toronto,  
Toronto, Canada

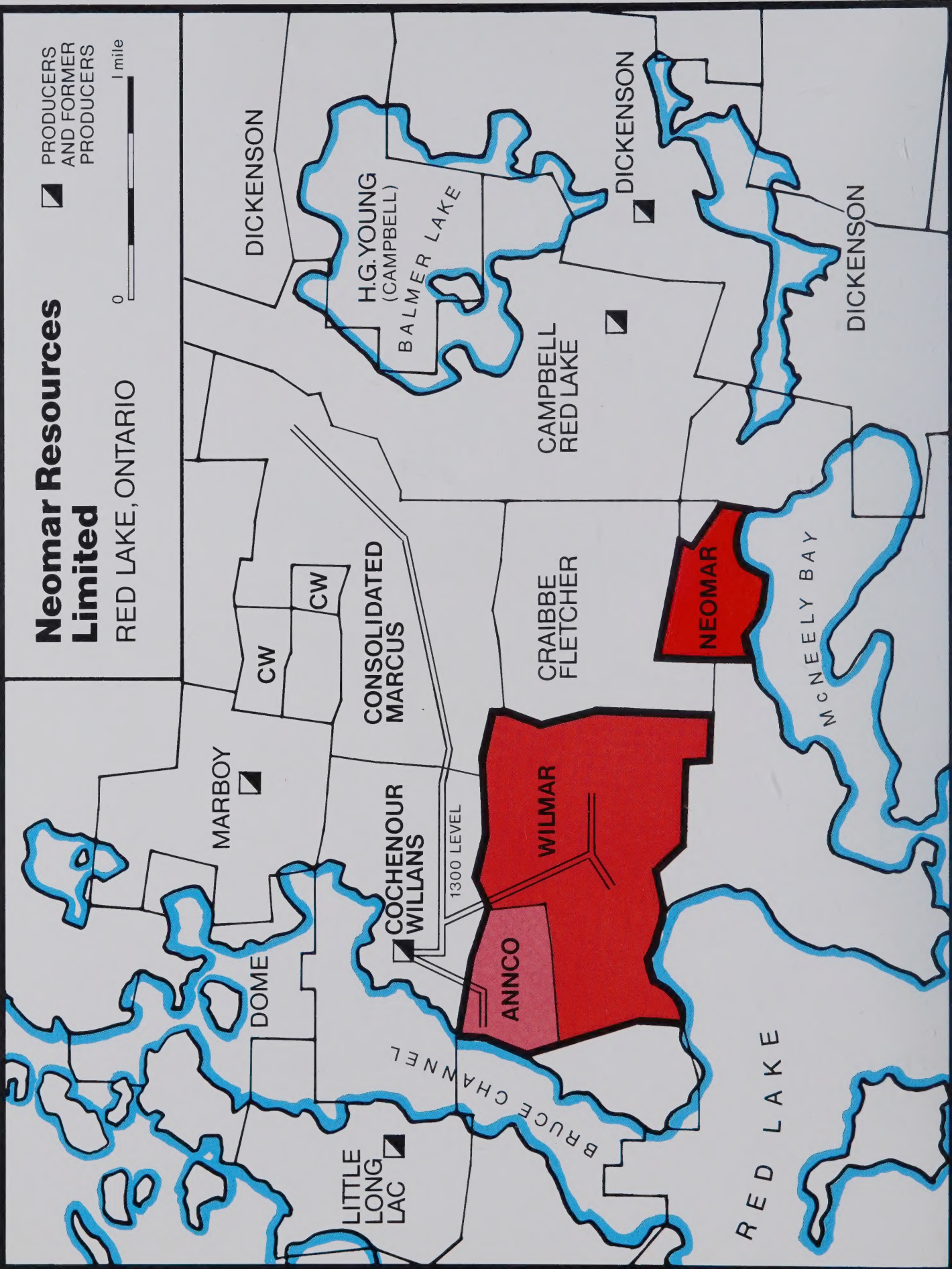
**Neomar**  
NEOMAR RESOURCES LIMITED  
ANNUAL REPORT 1978

# Neomar Resources Limited

RED LAKE, ONTARIO

PRODUCTION  
AND FORMER  
PRODUCTION

0 1 mile





# REPORT TO THE SHAREHOLDERS:

This Annual Report for 1978 outlines the increased activity undertaken by your Company following the financing and reorganization completed last summer.

Neomar participates in oil and gas projects which have been selected to build cash flow. In addition, the Company is re-assessing its gold property interests in the Red Lake camp of Northwestern Ontario.

## FINANCIAL

Gross Revenue from natural gas operations for the year was \$118,750 compared with \$106,755 in 1977. Net income was \$5,202, compared with \$127,818 in 1977 which included a gain of \$103,245 on the sale of investments.

Working capital increased to \$556,161 at December 31, 1978 from \$135,624 at the end of the previous year.

## OIL & GAS

### West Viking Gas Field East Central Alberta

The West Viking field is the Company's principal source of income. In November 1978 the Company increased its interest in the West Viking unit from 7.54% to 8.36%. Neomar has interests ranging from 6% to 15% in 67,000 acres at West Viking, including the unit acreage. 41 wells have been drilled to date resulting in 26 gas wells and one oil well. Approximately 20 wells will be drilled during the remainder of 1979. Depending on the degree of success of this drilling it is anticipated that up to 20 wells will be drilled in 1980. Revenue from West Viking will increase in 1979 due to Neomar's greater participation in the unit and as more wells are brought into production through the West Viking gas plant and the Iron Creek gas plant south of the acreage. Both plants are operated by Voyager Petroleums Limited.

An evaluation by the independent consulting firm of DeGolyer and McNaughton of Dallas, dated January 1, 1979, estimates gross proven reserves of 30,580,000 MCF of natural gas at West Viking. Neomar's share is 2,564,000 MCF.

### Signalta Exploration Joint Venture East Central Alberta & British Columbia

During 1979, Neomar will participate with Signalta Resources Limited in drilling approximately 60 wells in East Central Alberta and British Columbia. Of 12 wells drilled in the first three months of 1979, 6 have been completed as potential gas producers. It is anticipated that most of the gas found by this program will be brought to market within one or two years of discovery.

The project is operated by Signalta Resources Limited of Calgary, a leader in natural gas exploration and development in East Central Alberta. The Joint Venture budget for 1979 will be approximately \$7 million of which the Company will be contributing 10%. It is anticipated that this ongoing program will continue for several years.

### Renaissance Exploration Joint Venture Alberta and British Columbia

In this program, operated by Renaissance Resources Limited of Calgary, a total of 37 wells were drilled in 1978, 23 were completed as potential gas producers and one as a potential oil well. One well is now in production and others are expected to be brought into production over the next few years. An evaluation by the independent consulting firm of M&D Petroleum Consultants Ltd. of Calgary, dated January 24, 1979 estimates gross proven natural gas reserves developed by Renaissance of 8,754,000 MCF. Neomar's share is 640,000 MCF.

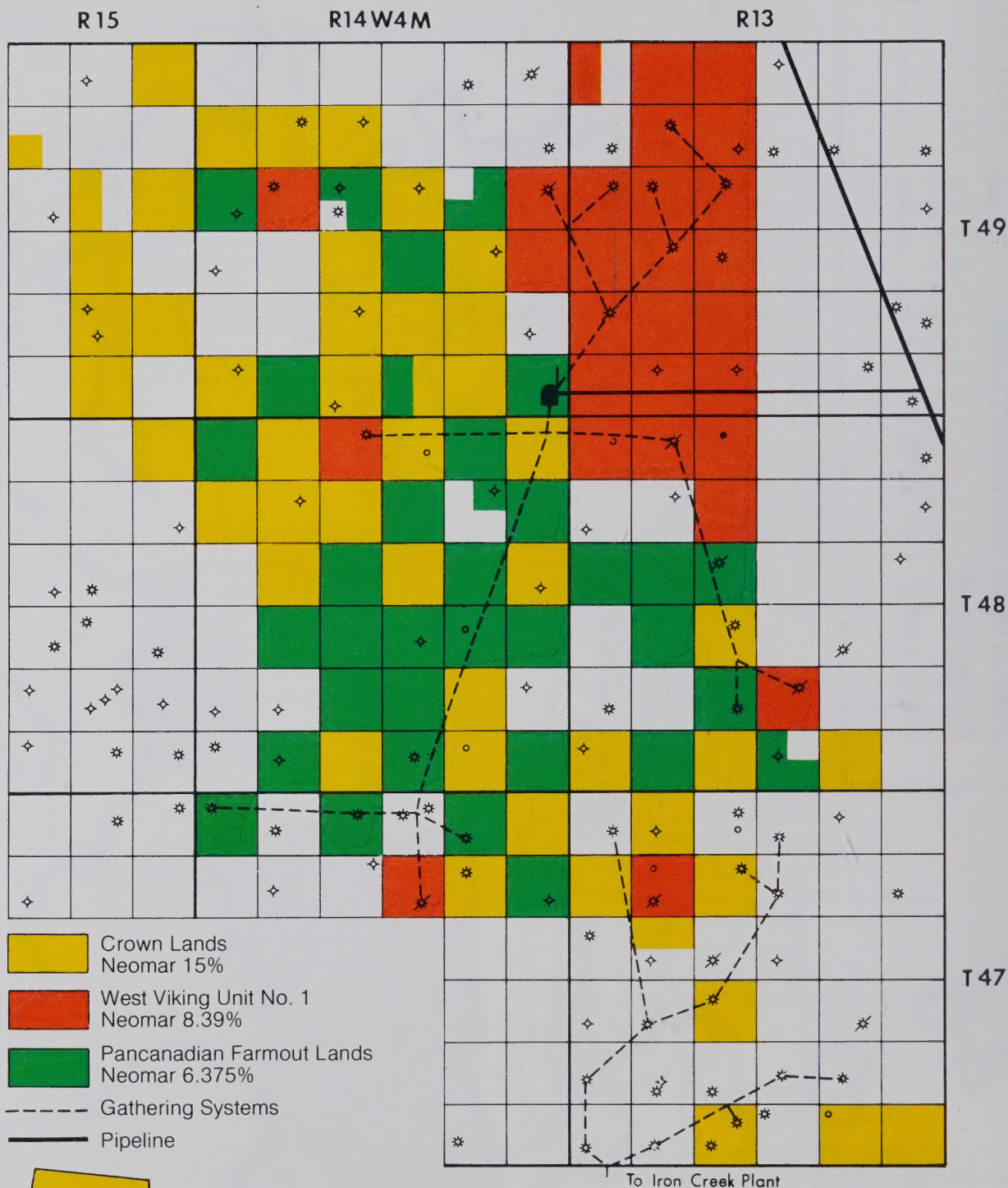
### Palo Duro West Texas

This is a wildcat project operated by American Petrofina in the Palo Duro Basin in West Texas. The initial well resulted in a dry hole. Seismic data on the area is being re-assessed before a decision is made on drilling a second well.

## GOLD

Neomar has gold-related interests in the Red Lake area of Northwestern Ontario which merit further attention as a result of the recent sharp increase in the price of gold. At present prices, exceeding





**NEOMAR RESOURCES LIMITED**  
 WEST VIKING AREA  
 EAST CENTRAL ALBERTA

\$285 an ounce in Canadian currency, the old gold camps are again attracting interest.

### **Wilmar Mines Limited**

Neomar holds 35% of Wilmar Mines Limited a former gold producer in the Red Lake area of Northwestern Ontario. The principal shareholder is Cochenour Willans Gold Mines Limited with a 65% interest. Camflo Mines Limited, the major shareholder in both Cochenour and Neomar, is directing an extensive re-assessment of Wilmar and other properties in the Red Lake district.

The Wilmar property was first opened up by a drive from the adjoining Cochenour mine on the 1300 ft. level and an internal winze to 2116 ft. Ore was shipped to the Cochenour mill from 1967 to 1971 when operations ceased. Underground and surface exploration programs carried out during 1973-75 outlined some additional potential ore on the property.

A mill test was run on 18,000 tons from the large low grade, Wilmar West (granodiorite) zone in 1975. Average grades of 0.098 ozs./ton of gold and 0.139 ozs./ton of silver were obtained. Shortly thereafter, the price of gold fell to \$127.50 U.S. per ounce, work was discontinued, and the Cochenour and Wilmar workings were allowed to flood.

### **Annco Mines Limited**

Neomar owns 45% of Annco Mines Limited, with Cochenour holding 55%. The Annco and Wilmar properties adjoin each other and the Cochenour property. Annco is also a former producer which was opened up by a drive from the Cochenour ground and ore was shipped to the Cochenour mill from 1965 to 1971. Operations ceased in 1971 and the workings were flooded following the 1975 shutdown.

### **OUTLOOK**

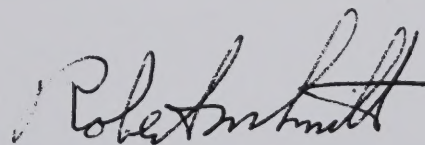
A significant increase in cash flow from natural gas production is expected over the next few years and participation is being sought in additional projects. The increased level of activity is reflected in the appointment of a production manager and an exploration manager in Calgary.

The re-assessment of gold properties is expected to be completed later this year and will indicate the extent of future exploration and development work.

The Directors wish to express their appreciation to Mr. E. Fahlgren and Mr. G. T. Smith for their services to the company. Mr. Fahlgren resigned as a Director in order to take up a government appointment. Mr. G. T. Smith resigned as President and as a Director. Mr. R. M. Smith has been appointed President of the Company. We welcome Mr. S. J. Chad of Calgary and Mr. D. Doig of Toronto as new Directors.

At the forthcoming Annual and General Meeting, Shareholders will be asked to approve an increase of authorized capital from 3,837,994 shares to 5,000,000 shares, and to approve new By-Laws for the company. The new By-Laws will replace the existing ones, bringing them into accordance with present corporate practice and law.

On behalf of the Board



President

April 11th, 1979



# Consolidated Balance Sheet

as at December 31, 1978

Assets	1978	1977
<b>CURRENT ASSETS</b>		
Cash and short-term deposits .....	\$ 356,859	\$ —
Accounts receivable .....	9,849	—
Marketable securities, at cost (quoted market value \$533,225; \$408,575 in 1977) .....	234,275	234,275
Prepaid expenses and deposits .....	3,360	1,385
	<u>604,343</u>	<u>235,660</u>
<b>INVESTMENT IN OTHER COMPANIES</b> .....	<u>5</u>	<u>5</u>
<b>OTHER ASSETS AND DEFERRED EXPENDITURES</b>		
Exploration advances .....	115,731	—
Interest in petroleum and natural gas properties (at cost, less amortization) (note 2) .....	682,215	402,518
Deferred exploration and administrative expenditures .....	156,349	156,210
Patented mining claims situated in the Township of Dome in the District of Patricia, Ontario, at cost .....	99,470	99,470
	<u>1,053,765</u>	<u>658,198</u>
	<u>\$1,658,113</u>	<u>\$ 893,863</u>



**NEOMAR RESOURCES LIMITED****(formerly Martin-McNeely Mines, Limited)***(Incorporated under the laws of Ontario)*

<b>Liabilities</b>	1978	1977
CURRENT LIABILITIES		
Bank indebtedness .....	\$ —	\$ 49,189
Accounts payable and accrued liabilities .....	48,182	11,247
Current portion of long-term debt .....	—	39,600
	<u>48,182</u>	<u>100,036</u>
LONG-TERM DEBT .....	—	96,000
	<u>48,182</u>	<u>196,036</u>

**Shareholders' Equity**

## CAPITAL STOCK

## Authorized

3,837,994 shares of no par value (1977 — 10,000,000 shares)

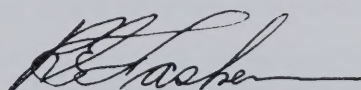
## Issued

1,837,938 shares (1977 — 7,189,003 shares) ..... 2,951,422 2,044,520

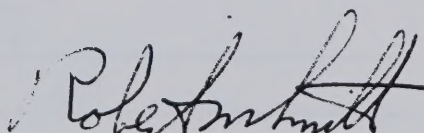
DEFICIT..... 1,341,491 1,346,693

1,609,931 697,827\$1,658,113 \$ 893,863

Approved on behalf of the Board:



R. E. FASKEN, Director



R. M. SMITH, Director



# Consolidated Statement of Income and Deficit

For the Year Ended December 31, 1978

	1978	1977
Share of revenue from gas operations .....	\$ 118,750	\$ 106,755
Less: Operating expenses .....	16,342	15,571
Amortization of interests in petroleum and natural gas properties .....	25,400	27,523
	41,742	43,094
Income from gas operation .....	77,008	63,661
ADMINISTRATIVE EXPENSES		
Directors' fees and expenses .....	3,726	1,850
General expenses .....	5,535	3,821
Interest on bank loan .....	17,255	18,764
Office expense .....	4,546	1,827
Office rent .....	2,400	2,100
Legal, audit and consultants' fees .....	18,166	4,642
Shareholders' information .....	7,753	3,185
Share issue expense .....	20,260	—
Transfer agent's fees and expenses .....	9,381	2,799
	89,022	38,988
OTHER INCOME		
Interest .....	17,216	—
Gain on sale of shares .....	—	103,245
	17,216	103,245
NET INCOME FOR THE YEAR (note 4) .....	5,202	127,918
DEFICIT, BEGINNING OF YEAR .....	1,346,693	1,474,611
DEFICIT, END OF YEAR .....	\$1,341,491	\$1,346,693
EARNINGS PER SHARE		
(based on issued share capital at December 31, 1978) .....	\$ —	\$0.07

# Consolidated Statement of Deferred Exploration and Administrative Expenditures

For the Year Ended December 31, 1978

	1978	1977
Balance deferred, beginning of year .....	\$ 156,210	\$ 156,089
Exploration		
Acreage and municipal taxes .....	139	121
Balance deferred, end of year .....	\$ 156,349	\$ 156,210



# Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1978

	1978	1977
WORKING CAPITAL DERIVED FROM		
Net income for the year .....	\$ 5,202	\$ 127,918
Charges not affecting working capital		
Amortization of interests in petroleum and natural gas properties .....	25,400	27,523
	30,602	155,441
Sale of capital stock .....	906,902	—
	937,504	155,441
WORKING CAPITAL APPLIED TO		
Other assets and deferred expenditures .....	420,967	181,502
Decrease in long-term debt .....	96,000	57,800
	516,967	239,302
INCREASE (DECREASE) IN WORKING CAPITAL .....	420,537	(83,861)
WORKING CAPITAL, BEGINNING OF YEAR .....	135,624	219,485
WORKING CAPITAL, END OF YEAR .....	\$ 556,161	\$ 135,624

## Auditors' Report

To the Shareholders of  
Neomar Resources Limited (formerly Martin-McNeely Mines, Limited)

We have examined the consolidated balance sheet of Neomar Resources Limited (formerly Martin-McNeely Mines, Limited) and its subsidiary as at December 31, 1978 and the consolidated statements of income and deficit, deferred exploration and administrative charges and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1978 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada  
February 27, 1979

ALLAN, MILES, FOX & JOHNSON  
Chartered Accountants



# Notes to Consolidated Financial Statements

December 31, 1978

## 1. Summary of Significant Accounting Policies

### (a) Principles of Consolidation

The consolidated financial statements include the accounts of Neomar Resources, Inc., a wholly-owned subsidiary.

### (b) Foreign Exchange

The assets, liabilities and results of operations of the United States subsidiary have been translated into Canadian dollars at historical rates.

### (c) Interest in Petroleum and Natural Gas Properties

The company has adopted the full cost method of accounting for costs applicable to natural gas leases. Under this method, the costs of acquiring interests in proven and unproven petroleum and natural gas properties and the costs of wells developed have been capitalized as incurred. Depreciation and amortization of oil and gas property costs have been calculated on the basis of total production during the year as a percentage of total proven reserves.

### (d) Deferred Exploration and Administrative Expenditures

The costs of non-producing mineral interests are capitalized by area of interest when acquired. When all claims in an area of interest are surrendered, development and other expenditures and the cost of non-producing property interests is dependent upon developing economic operations.

## 2. Interest in Petroleum and Natural Gas Properties

	1978	1977
Petroleum and natural gas properties together with exploration and development thereon:		
Canada .....	\$725,341	\$452,241
U.S.A. ....	31,997	—
	<u>\$757,338</u>	<u>\$452,241</u>
Accumulated amortization .....	75,123	49,723
	<u>\$682,215</u>	<u>\$402,518</u>

During the year the company, through its wholly-owned subsidiary, acquired a 10% working interest in a farm-in and joint venture agreement on certain lands in the West Palo Duro Basin area of Texas. The expected cost of this programme will approximate \$107,000.

## 3. Income Taxes

Exploration and development costs deferred in the accounts have been partially written off for tax purposes. Such

amounts are available for application against future taxable income and approximate \$536,000 (1977 — \$219,000).

## 4. Capital Stock

During the year the company obtained an amendment to its articles changing its name and consolidating its shares on a one for seven basis. A subsequent rights offering resulted in an additional 513,500 shares being issued at \$1.10 per share. Under a standby commitment given by Camflo Mines Limited an additional 297,437 shares were issued by Neomar at \$1.15 per share.

## 5. Continuing Exploration

During the year, the Board of Directors approved a resolution authorizing the company to participate in a drilling programme in Alberta to commence in June, 1979 and be completed by May, 1981. The cost of the programme will approximate \$472,000.

## 6. Statutory Information

The aggregate direct remuneration paid or payable by the company to its directors and senior officers, as defined by The Business Corporation Act (including the five highest paid employees), amounts to \$3,125 (\$1,850 in 1977).

## 7. Anti-Inflation Program

The company was subject to controls on dividends instituted by the Federal Government in the Anti-inflation Act effective October 14, 1975. Management has used its best efforts to comply with the guidelines since their announcement.

## 8. Comparative Figures

Certain figures for 1977 have been reclassified for comparative purposes to correspond with the classification adopted in 1978.

## 9. Share Options

The company has granted options to two of its employees to purchase 25,000 shares each at \$1.30 per share. These options expire on October 19th, 1980.

## 10. Subsequent Events

Subsequent to December 31st, 1978, the company entered into a 10% participation in an oil and gas exploration programme in Alberta and British Columbia. The company's share of expenses will be approximately \$700,000 over a period of one year.











**NEOMAR RESOURCES LIMITED**  
(formerly Martin-McNeely Mines, Limited)

**STATEMENT OF INCOME AND DEFICIT**  
**For the six months ended June 30, 1978**  
(Unaudited)

	1978	1977
Share of revenue from gas operations .....	\$ 67,584	\$ 52,390
Less: Operating expenses ..	7,188	4,351
Amortization of interests in petroleum and natural gas properties .....	16,896	10,831
	24,084	15,182
Income from gas operation	43,500	37,208
<b>Administrative Expenses</b>		
Directors' fees and expenses .....	2,351	100
General expense .....	5,169	3,711
Interest on bank loan ....	11,802	9,517
Office expense .....	2,424	204
Office rent .....	1,600	900
Legal, audit and consultants' fees .....	3,883	1,839
Shareholders' information .....	3,303	2,060
Transfer agent's fees and expenses .....	4,509	638
	35,041	18,969
	8,459	18,239
<b>Other Income</b>		
Gain on sale of marketable securities .	—	103,245
	8,459	103,245
Net income (loss) for the period .....	8,459	121,484
Deficit, beginning of period	1,346,693	1,476,611
Deficit, end of period .....	\$1,338,234	\$1,353,127

**NEOMAR  
RESOURCES  
LIMITED**  
(formerly Martin-McNeely Mines, Limited)

**INTERIM REPORT  
TO SHAREHOLDERS**

For the Six Months ended June 30, 1978



# NEOMAR RESOURCES LIMITED

(formerly Martin-McNeely Mines, Limited)

Suite 3001, South Tower  
Box 45, Royal Bank Plaza  
Toronto, Ontario  
M5J 2J1

To the Shareholders:

This report is to bring you up to date on recent developments in your company. The Statement of Income and Deficit and Statement in Changes in Financial Position for the 6 months ended June 30, 1978 are attached.

The consolidation of share capital on a 1 for 7 basis and the change of name to Neomar from Martin-McNeely has been completed. A U.S. subsidiary, Neomar Resources Inc., has been formed for participation in new U.S. activities.

The recent financing was most successful with \$906,902 raised through the sale of shares under the rights offering to shareholders and to Camflo Mines Limited under the agreement with Camflo of March 10, 1978. Bank loans have been repaid and the company is in excellent financial condition with cash in hand of approximately \$500,000, and marketable securities having an approximate value of an additional \$450,000.

Your company now has 1,837,938 shares issued of which Camflo owns 459,484 shares or 25%. The authorized share capital is 3,837,994 shares.

Net income for the 6 months ended June 30, 1978 was \$8,459 compared with \$18,239 (before a gain on the sale of marketable securities of \$103,245) during the first half of 1977.

## Petroleum and Natural Gas

The West Viking unit in east-central Alberta, in which the company has a 7.54% interest, is the company's source of income. Natural gas revenue increased to \$67,584 in the 6 months ended June 30, 1978 compared with \$52,390 for the first half of 1977. Eight to 10 development wells are planned during 1978 in order to increase production revenue. The first of these wells has been drilled and is being completed as a potential oil producer.

## Exploration

### Canada

Neomar has a 7.3% participation in a \$2.7 million programme exploring and developing extensive and well located acreage in Alberta and British Columbia. The programme is operated by Renaissance Resources Limited of Calgary. The Renaissance group's interest in

exploration acreage is generally in the 25-50% range. During 1978 15 wells have been drilled of which 8 have been cased as potential gas producers. Initial production from 1 well is expected to start in the Fall.

Of immediate interest is a well now being drilled in the Doris Creek area of western Alberta where the Renaissance group has a 6% interest in 8,320 acres and an 8% interest in 3,340 acres with options on 20,000 acres in an adjacent area. Seismic coverage indicates excellent potential for oil production from D-2 and Swan Hills Reefs and secondary potential for gas production from several zones. The well is being drilled to 10,000 feet.

## United States

Neomar recently joined in a group together with Orbit Oil & Gas, Inc. of Tyler, Texas, in an interesting wildcat programme in the Palo Duro Basin in west Texas. Neomar's U.S. subsidiary will contribute 10% of exploration costs for a 3.75% net interest. The cost to Neomar of the initial 2-well commitment will be \$120,000. Drilling is expected to commence in the Fall. A total of 191,000 acres will be earned if 4 test wells are drilled. The operator is American Petrofina.

These programmes have the effect of working to increase cash flow through development drilling and participation in exploration ventures of promise. The company has the financial resources to seek additional projects.

Certainly not to be overlooked is the 35% participation in Wilmar Mines Limited, a former gold producer in the Red Lake district of Ontario. The advance in the price of gold from \$103 U.S. per ounce to a recent \$215 U.S., within two years, should prompt further evaluations of the economics of known gold properties in Canada.

On behalf of the Board of Directors.

G. T. SMITH  
President.

August 21, 1978.

# NEOMAR RESOURCES LIMITED

(formerly Martin-McNeely Mines, Limited)

## STATEMENT OF CHANGES IN FINANCIAL POSITION

For the six months ended June 30, 1978  
(Unaudited)

	1978	1977
<b>Working Capital Derived from</b>		
Net income .....	\$ 8,459	\$ 121,484
Charges not requiring an outlay of funds:		
Amortization of interests in petroleum and natural gas properties .....	16,896	10,831
	<u>25,355</u>	<u>132,315</u>
<b>Working Capital Applied to</b>		
Interest in petroleum and natural gas properties	153,967	112,394
Decrease in long-term debt .....	<u>19,800</u>	<u>19,800</u>
	<u>173,767</u>	<u>132,194</u>
Increase (decrease) in working capital .....	(148,412)	121
Working capital, beginning of period .....	<u>135,624</u>	<u>219,485</u>
Working capital (deficiency), end of period .....	<u>\$ (12,788)</u>	<u>\$ 219,606</u>